

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

October 17, 2003

ORDER APPROVING
COMPLIANCE FILING

MAINE PUBLIC SERVICE COMPANY
Request for Approval of Alternative Rate Plan

Docket No. 2003-85

MAINE PUBLIC SERVICE COMPANY
Application for Approval of Issuance of
Second Mortgage and Collateral Trust Bonds
to Secure New Letter of Credit Issued
Pursuant to Amendment No. 4 to the Letter
of Credit and Reimbursement Agreement
(Section 1101) (\$14,400,000)

Docket No. 2002-256

MAINE PUBLIC SERVICE COMPANY
Application for Approval of Issue of Securities
(Section 902) (\$15,000,000) and for Approval
of Second Mortgage (Section 1101)
(\$15,875,000)

Docket No. 1996-241

MAINE PUBLIC SERVICE COMPANY
Application for Approval of Issue of Securities
(Section 902) (\$9,525,000)

Docket No. 2000-542

MAINE PUBLIC SERVICE COMPANY
Application for Approval of Issuance of
Securities and Mortgage Bonds (Section 902,
1101) (\$14,000,000)

Docket No. 1998-210

WELCH, Chairman; DIAMOND and REISHUS, Commissioners

I. SUMMARY

On September 25, 2003, the Commission issued its Part Two Order in the above-referenced dockets which approved a Stipulation entered into between Maine Public Service Company (MPS or Company), the Office of the Public Advocate (OPA), McCain Foods, Inc. (McCain), and J.M. Huber, Inc. (Huber) and thus authorized MPS to increase its distribution rates and to enter a "Hedge Program" which would serve to convert the Company's then variable long-term debt rate to a fixed rate. The Commission delegated authority to the Director of Finance to review and approve the Company's Hedge Program filing. This Order approves the Company's Hedge Program.

II. DECISION

As described in our Part One Order, all of the Company's long-term debt instruments were issued at variable rates. At the time the parties entered into the Stipulation in this Docket, MPS's long-term debt totaled approximately \$31.34 million with a then current aggregate variable interest rate of approximately 4.06%, inclusive of all issuance costs. Including these amounts in the calculation of MPS's pre-tax weighted average cost of capital (WACC) resulted in a current WACC of 10.69%. Based on competing quotes from Fleet Bank and The Bank of New York, MPS estimated that entering into swap agreements would fix the interest rate for all of its long-term debt through the maturity at an aggregate rate of 6.54%, again inclusive of issuance costs. This would raise MPS's pre-tax WACC from the aforementioned 10.69% to 11.72%. Since swap prices change constantly, MPS agreed to limit ratepayer exposure to this level (6.54%) even if the market moved against ratepayers prior to its entering and closing on the agreements. Furthermore the Company agreed that ratepayers would get the benefit if swap prices moved in their favor in the interim.

MPS ultimately entered the swap transactions with Fleet Bank on September 10, 2003. The Company received an aggregate fixed interest rate of 6.59%, which would have produced a pre-tax WACC of 11.74%. As a result, the Company's distribution revenue requirement will be based upon the agreed upon maximum of a 6.54% cost of long-term debt and a pre-tax WACC of 11.72% which the parties to the Stipulation found reasonable. Although this transaction by itself will raise current costs to ratepayers, a 6.54% long-term debt rate appears to be a favorable rate by historical standards for a utility such as MPS. Ratepayers will not be subjected to upward interest rate movements on these instruments in the future as a result.

Accordingly, pursuant to the Commission's Part Two Order in this Docket, dated September 25, I hereby

ORDER

That MPS's Hedge Program is approved subject to the terms agreed to by the parties to the Stipulation.

BY ORDER OF THE DIRECTOR OF FINANCE

Richard M. Kania
Acting Director of Finance

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.
2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within 30 days of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Civil Procedure, Rule 73, et seq.
3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.